

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CHASSELL TOWNSHIP	County HOUGHTON
Fiscal Year End March 31, 2006	Opinion Date JUNE 21, 2006	Date Audit Report Submitted to State AUGUST 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☐ ☒ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC		Telephone Number 906-482-6601	
Street Address 310 SHELDEN AVENUE		City HOUGHTON	State MI
Zip 49931		License Number 263812	
Authorizing CPA Signature <i>Bruce A Rukkila</i>		Printed Name BRUCE A. RUKKILA	

TOWNSHIP OF CHASSELL
HOUGHTON COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL FINANCIAL INFORMATION

March 31, 2006

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORTS:

	<u>Page</u>
Independent Auditor's Report	4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	6

GENERAL PURPOSE FINANCIAL STATEMENTS:

Combined Balance Sheets - All Fund Types and Account Groups	7
Combined Statements of Revenues, Expenditures, and Changes in Fund Balance All Governmental Fund Types	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund and Special Revenue	9
Combined Statements of Revenues, Expenses, and Changes in Retained Earnings All Proprietary Fund Types	10
Combined Statement of Cash Flows - All Proprietary Fund Types	11
Notes to Financial Statements	12

SUPPLEMENTAL FINANCIAL INFORMATION:

General Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balance	26
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Special Revenue Funds:

Combining Balance Sheets - All Special Revenue Funds	30
Combining Statements of Revenues, Expenses, and Changes in Fund Balance All Special Revenue Funds	31

Enterprise Funds:

Combining Balance Sheets - All Enterprise Funds	32
Combining Statements of Revenues, Expenses, and Changes in Retained Earnings All Enterprise Funds	33

TABLE OF CONTENTS
(Continued)

SUPPLEMENTAL FINANCIAL INFORMATION: (Continued)	<u>Page</u>
Combining Statements of Cash Flows - All Enterprise Funds	34
<u>Fiduciary Fund Types:</u>	
Trust and Agency Fund	
Statement of Changes in Assets and Liabilities	35
LETTER OF COMMENTS AND RECOMMENDATIONS	36



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INDEPENDENT AUDITOR'S REPORT

Honorable Supervisor and Board of Trustees
Township of Chassell
Chassell, Michigan

We have audited the accompanying general purpose financial statements of the Township of Chassell, as of and for the year ended March 31, 2006. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township does not maintain adequate accounting records relative to its investment in general fixed assets. Accordingly, the general purpose financial statements referred to above do not include financial statements of the General Fixed Assets Account Group, which should be included in order to conform with generally accepted accounting principles. Also, the Township has not adopted the reporting format of Government Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Chassell, as of March 31, 2006, and the results of its operations and the cash flows of its proprietary and similar trust fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2006 on our consideration of the Township of Chassell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented as supplemental information and are not a required part of the general purpose financial statements of the Township of Chassell. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount which we have not determined, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Bruce A. Rukkala, CPA, PC

Certified Public Accountants

June 21, 2006



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Supervisor and Board of Trustees
Township of Chassell
Chassell, Michigan

We have audited the financial statements of the Township of Chassell as of and for the year ended March 31, 2006, and have issued our report thereon dated June 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the Township of Chassell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, a noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the Township of Chassell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

June 21, 2006

TOWNSHIP OF CHASSELL
COMBINED BALANCE SHEETS- ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2006

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Agency</u>	
ASSETS AND OTHER DEBITS:					
Cash	\$ 314,584	\$ 293,146	\$ 92,841	\$ 8,123	\$ 708,694
Receivables	3,719	5,712	831	-	10,262
Due from other funds	57,096	426	-	-	57,522
Restricted cash	-	2	218,584	-	218,586
Fixed assets	-	-	5,098,014	-	5,098,014
Accumulated depreciation	-	-	(1,376,589)	-	(1,376,589)
TOTAL ASSETS & OTHER DEBITS	\$ 375,399	\$ 299,286	\$ 4,033,681	\$ 8,123	\$ 4,716,489
LIABILITIES:					
Accounts payable	\$ 4,121	\$ -	\$ 652	\$ -	\$ 4,773
Due to other funds	426	7,376	49,719	1	57,522
Due to other governmental units	-	-	-	8,122	8,122
Current maturities on bond payable	-	-	30,000	-	30,000
Bonds payable-net of current maturities	-	-	1,020,000	-	1,020,000
Accrued salaries	6,289	22	3,193	-	9,504
Accrued expenses	647	2	1,673	-	2,322
Deferred revenue	3,719	5,712	-	-	9,431
TOTAL LIABILITIES	15,202	13,112	1,105,237	8,123	1,141,674
FUND EQUITY AND OTHER CREDITS:					
Contributed capital	-	-	3,111,662	-	3,111,662
Retained earnings	-	-	(183,218)	-	(183,218)
Fund balance	360,197	135,503	-	-	495,700
Reserved fund balance	-	150,671	-	-	150,671
TOTAL FUND EQUITY AND OTHER CREDITS	360,197	286,174	2,928,444	-	3,574,815
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	\$ 375,399	\$ 299,286	\$ 4,033,681	\$ 8,123	\$ 4,716,489

The accompanying notes to the financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
COMBINED STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
ALL GOVERNMENT FUND TYPES
Year Ended March 31, 2006

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Only)</u>
REVENUES:			
Taxes	\$ 54,753	\$ 78,279	\$ 133,032
State	134,184	904	135,088
Federal	91,590	-	91,590
Administration and collection fees	14,701	-	14,701
Charges for services	60,073	-	60,073
Interest	9,766	5,478	15,244
Other	15,081	-	15,081
TOTAL REVENUES	<u>380,148</u>	<u>84,661</u>	<u>464,809</u>
EXPENDITURES:			
Township Board	37,157	-	37,157
Supervisor	4,868	-	4,868
Elections	1,411	-	1,411
Assessor	10,009	-	10,009
Clerk	11,237	-	11,237
Board of Review	1,150	-	1,150
Treasurer	24,531	-	24,531
Town Hall	45,676	-	45,676
Cemetery	15,329	-	15,329
Constable	575	-	575
Fire Protection	102,538	41	102,579
Department of Public Works and streets	75,490	7,600	83,090
Sanitation/Garbage	50,522	-	50,522
Zoning	2,000	-	2,000
Recreation	29,575	90	29,665
Other activities	36,155	-	36,155
Liquor Law Enforcement	-	401	401
TOTAL EXPENDITURES	<u>448,223</u>	<u>8,132</u>	<u>456,355</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>(68,075)</u>	<u>76,529</u>	<u>8,455</u>
OTHER FINANCING SOURCES (USES)			
Gain on sale of investments	4,800	-	4,800
Transfers in (out)	(1,828)	1,828	-
Total other financing sources (uses)	<u>2,972</u>	<u>1,828</u>	<u>4,800</u>
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	<u>(65,103)</u>	<u>78,357</u>	<u>13,255</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>425,300</u>	<u>57,145</u>	<u>482,445</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 360,197</u>	<u>\$ 135,503</u>	<u>\$ 495,700</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASELL
COMBINED STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE
Year Ended March 31, 2006

REVENUES:	General			Special Revenue		
	Budget	Actual	Variance	Budget	Actual	Variance
Taxes	\$ 56,196	\$ 54,753	\$ (1,443)	\$ 79,366	\$ 78,279	\$ (1,087)
State	134,185	134,184	(1)	-	904	904
Federal	91,590	91,590	-	-	-	-
Administration and collection fees	17,731	14,701	(3,030)	-	-	-
Charges for services	57,175	60,073	2,898	-	-	-
Interest	9,000	9,766	766	3,575	5,478	1,903
Other	14,926	15,081	155	-	-	-
TOTAL REVENUES	380,803	380,148	(655)	82,941	84,661	1,720
EXPENDITURES:						
Township board	35,667	37,157	(1,490)	-	-	-
Supervisor	4,603	4,868	(265)	-	-	-
Elections	4,000	1,411	2,589	-	-	-
Assessor	10,600	10,009	591	-	-	-
Clerk	12,260	11,237	1,023	-	-	-
Board of Review	1,500	1,150	350	-	-	-
Treasurer	24,050	24,531	(481)	-	-	-
Town Hall	60,729	45,676	15,053	-	-	-
Cemetery	22,930	15,329	7,601	-	-	-
Constable	600	575	25	-	-	-
Fire Protection	104,250	102,538	1,712	350	41	309
Department of Public Works and streets	76,840	75,490	1,350	7,630	7,600	30
Sanitation/Garbage	50,500	50,522	(22)	-	-	-
Zoning	2,500	2,000	500	-	-	-
Parks and recreation	31,091	29,575	1,516	100	90	10
Other activities	37,200	36,155	1,045	-	-	-
Liquor Law Enforcement	-	-	-	685	401	284
TOTAL EXPENDITURES	\$ 479,320	448,223	\$ 31,097	\$ 8,765	8,132	\$ 633
EXCESS OF REVENUES (EXPENDITURES)		(68,075)			76,529	
OTHER FINANCING SOURCES (USES)						
Gain on sale of investments		4,800			-	
Transfers in (out)		(1,828)			1,828	
Total other financing sources (uses)		2,972			1,828	
EXCESS REVENUES (EXPENDITURES) AND OTHER FINANCING USES		(65,103)			78,357	
FUND BALANCE, BEGINNING OF YEAR		425,300			57,145	
FUND BALANCE (DEFICIT), END OF YEAR		\$ 360,197			\$ 135,503	

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASELL
COMBINED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
Year Ended March 31, 2006

	Proprietary Fund Type (Enterprise)
OPERATING REVENUES:	
State	\$ 16,900
Charges for services	212,000
Connection fees	1,062
Other	2,124
TOTAL OPERATING REVENUES	<u>232,086</u>
EXPENSES:	
Salaries	35,301
Employee benefits	12,878
Supplies, materials, and other	6,434
Office supplies	3,019
Utilities	13,503
Printing and publishing	1,266
Insurance	6,680
Repairs and maintenance	6,465
Professional services	6,010
Contracted services	2,486
Depreciation	120,556
Miscellaneous	1,202
TOTAL EXPENSES	<u>215,800</u>
OPERATING INCOME (LOSS)	<u>16,286</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	4,215
Interest expense	<u>(49,125)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(44,910)</u>
NET INCOME (LOSS)	(28,624)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(258,877)
ADJUSTMENTS TO FUND EQUITY:	
Current year additions to contributed capital	13,900
Amortization on contributed capital	<u>90,383</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ (183,218)</u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended March 31, 2006

	<u>Proprietary Fund Type (Enterprise)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$16,286
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	120,556
(Increase) decrease in accounts receivable	24,387
Increase (decrease) in accounts payable	652
Increase (decrease) in accrued interest	3,153
Increase (decrease) in due to other funds	49,719
Increase (decrease) in due to other governmental units	<u>(26,157)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>188,596</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(76,789)
Interest on investments	<u>4,215</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(72,574)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from long-term debt	13,900
Interest paid on long-term debt	(49,125)
Repayment of long-term debt	<u>(29,000)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(64,225)</u>
NET INCREASE (DECREASE) IN CASH	51,797
CASH AT BEGINNING OF YEAR	<u>259,628</u>
CASH AT END OF YEAR	<u><u>\$ 311,425</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

The Township of Chassell, Michigan, was organized in 1888. The Township operates under an elected board of five members. In accordance with NCGA Statements 3 and 7, certain other governmental organizations are not considered to be part of the Township entity for financial reporting purposes. The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Chassell conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

THE FINANCIAL REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the Township of Chassell contain all of the Township's funds. There are no other governmental units within the Township that are controlled by, or dependent upon, the Township's Board of Trustees. Control by, or dependence on the Township, was determined on the basis of appointment of the governing body or governing authority budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligation of the Township to finance any deficits that may occur, surplus funds, and scope of public service.

FUND ACCOUNTING

The accounts of the Township are organized on the basis of funds and account groups, each of which are considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent, and the means by which spending activities are controlled. The various funds are grouped in the financial statements into three broad fund types and four generic funds as follows:

GOVERNMENTAL FUND TYPES

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes. The Road Improvement, Fire Protection, Park and Recreation, and Liquor Law Enforcement Funds are special revenue type funds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

Enterprise Funds - Enterprise Funds are used to account for operations, (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water and Sewer Funds are enterprise type funds.

FIDUCIARY FUND TYPE

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Township in trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FIXED ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets (expendable available financial resources) and current liabilities (those expected to be liquidated with expendable financial resources) are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. A public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized along with other general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not "funds." Their purpose is related only to the measurement of financial position. They are not involved with measurement of results of operations.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Operating statements of proprietary fund types present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided using the straight-line method and the following estimated useful lives:

Utility Plant	10-20 years
Water & Sewer Systems	10-20 years
Buildings	10-20 years
Machinery and Equipment	5-10 years

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds and agency funds are accounted for using the modified accrual basis. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include payments in lieu of taxes, state and federal sources, and intergovernmental revenues. Other revenue sources such as licenses, permits, charge for services, sales, fees, fines, rentals, and others are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are not accrued in the governmental fund types and Agency Funds.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred with certain exceptions such as interest on long-term debt which is generally recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when incurred.

The Trust and Agency Fund is accounted for on the basis of cash receipts and cash disbursements.

TOWNSHIP OF CHASELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETARY DATA

The Township follows these procedures in establishing the budgetary data:

- a. Each February, the Township Supervisor prepares a proposed operating budget for the fiscal year commencing the following April 1, and submits this proposed budget to the Township Board of Trustees at a special meeting in March.
- b. The Township Board of Trustees reviews the proposed budget, which includes proposed expenditures and the means of financing them.
- c. Pursuant to the statute, the proposed budget is submitted to the Township at a public hearing, at which time public comment is invited. The final budget is formally adopted at a subsequent board meeting.
- d. The Board of Trustees reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
- e. Budget appropriation's lapse at the end of the fiscal year.

PROPERTY TAXES

Property taxes are levied on assessed values of property located in the Township and become an enforceable lien on the property. Assessed values are established annually (the first Monday in March) and equalized by the State. Township property taxes are levied on December 1, and are payable without a penalty through the following February 28. Property taxes are recognized as revenue in the year for which levied to the extent that they are measurable and available in accordance with NCGA Interpretation 3 (Revenue Recognition - Property Taxes).

The Township collects its own property taxes, and also collects property taxes for the County and School District within its jurisdiction. Collections and remittances of all property taxes are accounted for in the Trust and Agency Fund.

The 2005 taxable valuation of the Township of Chassell amounted to \$39,959,219 on which ad valorem taxes of \$51,212 were levied for Township operating purposes (1.2808 mills) and \$78,799 for Township roads (1.9706). These amounts are recorded as revenue on the Township's records in and for the fiscal year ending March 31, 2006.

TOTAL COLUMNS ON COMBINED BALANCE SHEETS - ALL FUNDS

The total columns on the combined statements of this report are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation which requires that inter-fund eliminations be made in the aggregation of this data.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND INVESTMENTS

For the purpose of the statement of cash flows, cash is defined as checking, money market, certificates of deposits, and savings accounts.

INVENTORY

Inventory has not been recognized in any of the funds.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Township does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - CASH AND INVESTMENTS

CASH DEPOSITS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Proprietary Funds	Fiduciary Funds	Total Primary Government
Cash and investments	<u>\$ 607,732</u>	<u>\$ 311,425</u>	<u>\$ 8,123</u>	<u>\$ 927,280</u>

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and certificates of deposit)	\$ 926,980
Petty cash and cash on hand	300
Total	<u>\$ 927,280</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE B - CASH AND INVESTMENTS (Continued)

At March 31, 2006, the book value of the Township's demand deposits, consisting primarily of cash and cash equivalents, was \$927,279 with a corresponding bank balance of \$965,205. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$615,832 representing approximately 64% of the Township's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$615,832 was insured and \$349,373 was neither insured nor collateralized.

INVESTMENTS

The investment of the Township's funds is governed by state statutes. In general, state statutes provide that the Township is authorized to invest its funds in certificates of deposit, savings accounts, and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities, and other obligations of the United States in which the principal and interest is fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter party or by its trust department or agent but not in the entity's name.

The Township had no investments as of March 31, 2006. The Township does have an investment policy that meets state statutory regulations.

NOTE C - RECEIVABLES

The detail of receivables at March 31, 2006 are as follows:

<u>Receivables</u>	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total Primary Government</u>
Accounts	\$ 0	\$ 0	\$ 831	\$ 831
Taxes	3,719	5,712	0	9,431
Total receivables	<u>\$ 3,719</u>	<u>\$ 5,712</u>	<u>\$ 831</u>	<u>\$ 10,262</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE D - INTER-FUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2006 are as follows:

	Interfund Receivable		Interfund Payable
General Fund	\$ 57,096	Fire Fund	\$ 7,376
		Water Fund	29,237
		Tax Collection Fund	1
		Sewer Fund	20,482
Subtotal	<u>57,096</u>	Subtotal	<u>57,096</u>
Liquor Law	<u>426</u>	General Fund	<u>426</u>
Total	<u>\$ 57,522</u>		<u>\$ 57,522</u>

NOTE E - WATER AND SEWER FUND FIXED ASSETS

Changes in the Water and Sewer Funds Fixed Assets in 2006 are as follows:

	Balance 3/31/05	Additions	Deletions	Balance 3/31/06
Sewer Fund	\$ 1,213,054	\$ 52,653	\$ 0	\$ 1,265,707
Water Fund	<u>3,808,172</u>	<u>24,135</u>	<u>0</u>	<u>\$ 3,832,307</u>
TOTALS	<u>\$ 5,021,226</u>	<u>\$ 76,788</u>	<u>\$ 0</u>	<u>\$ 5,098,014</u>

NOTE F - LONG-TERM DEBT

Sewage Disposal Bonds - 1972 Issues

Sewage Disposal System revenue bonds were issued on May 18, 1972, in the amount of \$189,000 and on September 28, 1972 in the amount of \$140,000 for the purpose of acquiring and constructing the Township's sewage disposal system. These bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Sewage Disposal System. The bonds bear an interest rate of 4.75% for the May 18 issue and 5.00% for the September 28 issue per annum.

Bonds maturing in the years 1992 to 2011, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date after January 1, 1992 at par plus accrued interest. The payment schedule for the bonds is as follows:

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE F - LONG-TERM DEBT (Continued)

SEWAGE DISPOSAL SYSTEM FUND
SCHEDULE OF SEWAGE DISPOSAL - 1972 ISSUE
SYSTEM REVENUE BONDS
March 31, 2006

Fiscal Year	January, 1		July, 1	
	Interest	Principal	Interest	Total
2006-07	\$ 2,075	\$ 16,000	\$ 2,075	\$ 20,150
2007-08	1,675	16,000	1,675	19,350
2008-09	1,275	17,000	1,275	19,550
2009-10	850	17,000	850	18,700
2010-11	425	17,000	425	17,850
TOTALS	<u>\$ 6,300</u>	<u>\$ 83,000</u>	<u>\$ 6,300</u>	<u>\$ 95,600</u>

Water Supply System Bonds

Water Supply System revenue bonds were issued on September 28, 1978, in the amount of \$275,000 for the purpose of acquiring and constructing improvements and additions to the Township's Water Supply System. The bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Water Supply System. The bonds bear an interest rate of 5.00% per annum.

Bonds maturing in the years 1992 to 2010, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date after January 1, 1992 at par plus accrued interest. The payment schedule for the bonds is as follows:

1978 WATER SUPPLY SYSTEM FUND
SCHEDULE OF WATER SUPPLY SYSTEM REVENUE BONDS
March 31, 2006

Fiscal Year	January, 1		July, 1	
	Interest	Principal	Interest	Total
2006-07	\$ 1,125	\$ 5,000	\$ 1,000	\$ 7,125
2007-08	1,000	10,000	750	11,750
2008-09	750	10,000	500	11,250
2009-10	500	10,000	250	10,750
2010-11	250	10,000	0	10,250
TOTALS	<u>\$ 3,625</u>	<u>\$ 45,000</u>	<u>\$ 2,500</u>	<u>\$ 51,125</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE F - LONG-TERM DEBT (Continued)

2003 Water Supply System Junior Lien Revenue Bond

The 2003 Water Supply System Junior Lien Revenue Bond was issued on January 27, 2004, in the amount of \$940,000 for the purpose of acquiring and constructing improvements and additions to the Township's Water Supply System. The bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Water Supply System. The bonds bear an interest rate of 4.50% per annum.

Bonds maturing in the years 2004 to 2043, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date on or after May 1, 2004 at par plus accrued interest.

The payment schedule for the bonds is as follows:

<p align="center"><u>2003 JUNIOR LIEN</u> <u>SCHEDULE OF WATER SUPPLY REVENUE BOND</u> March 31, 2006</p>				
Fiscal Year	January, 1		July, 1	
	Interest	Principal	Interest	Total
2006-2007	\$ 20,745	\$ 10,000	\$ 20,520	\$ 51,265
2007-2008	20,520	10,000	20,295	50,815
2008-2009	20,295	10,000	20,070	50,365
2009-2010	20,070	11,000	19,823	50,893
2010-2011	19,823	11,000	19,575	50,398
2011-2012	19,575	12,000	19,305	50,880
2012-2013	19,305	12,000	19,035	50,340
2013-2014	19,035	13,000	18,743	50,778
2014-2015	18,743	14,000	18,428	51,171
2015-2016	18,428	14,000	18,113	50,541
2016-2017	18,113	15,000	17,775	50,888
2017-2018	17,775	16,000	17,415	51,190
2019-2023	83,250	89,000	81,248	253,498
2024-2028	72,338	110,000	69,863	252,201
2029-2033	58,770	138,000	55,665	252,435
2034-2038	41,805	171,000	37,958	250,763
2039-2043	20,700	215,000	15,863	251,563
2043-2044	1,148	51,000	0	52,148
TOTALS	\$ 510,438	\$ 922,000	\$ 489,694	\$ 1,922,132

TOWNSHIP OF CHASELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE F- LONG-TERM DEBT (Continued)

2006 Sewage Disposal System Junior Lien Revenue Bond

The 2006 Sewage Disposal System Junior Lien Revenue Bond was issued on May 11, 2006, in the amount of \$718,000 for the purpose of acquiring and constructing improvements and additions to the Township's Sewage Disposal System. The bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Sewage Disposal System. The bonds bear an interest rate of 4.375% per annum.

Principal instalments of this bond is subject to prepayment prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date on or after November 1, 2006, at par and accrued interest to the date fixed for prepayment.

The proceeds from this bond issue are in the process of being distributed to the Township. Through June 26, 2006, \$175,000 of the revenue bond has been disbursed to the Township. The payment schedule for the amount of the bond is estimated based on expected dates of release of loan funds, and is as follows:

2006 JUNIOR LIEN
SCHEDULE OF SEWAGE DISPOSAL REVENUE BOND
March 31, 2006

Fiscal Year	May 1		November 1	Total
	Interest	Principal	Interest	
2006-2007	\$ 0	\$ 0	\$ 13,762	\$ 13,762
2007-2008	15,706	7,000	15,553	38,259
2008-2009	15,553	7,000	15,400	37,953
2009-2010	15,400	7,000	15,247	37,647
2010-2011	15,247	8,000	15,072	38,319
2011-2012	15,072	8,000	14,897	37,969
2012-2013	14,897	8,000	14,722	37,619
2013-2014	14,722	9,000	14,525	38,247
2014-2015	14,525	9,000	14,328	37,853
2015-2016	14,328	10,000	14,109	38,437
2016-2017	14,109	10,000	13,891	38,000
2017-2018	13,891	10,000	13,672	37,563
2019-2023	65,878	59,000	64,597	189,475
2024-2028	58,778	74,000	57,159	189,937
2029-2033	49,941	92,000	47,928	189,869
2034-2038	38,938	115,000	36,422	190,360
2039-2043	25,200	143,000	22,072	190,272
2044-2047	7,984	142,000	4,878	154,862
TOTALS	<u>\$ 410,169</u>	<u>\$ 718,000</u>	<u>\$ 408,234</u>	<u>\$ 1,536,403</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE F - LONG-TERM DEBT (Continued)

SUMMARY SCHEDULE OF LONG-TERM DEBT

March 31, 2006

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 61,302	\$ 31,000	\$ 92,302
2007-2008	77,174	43,000	120,174
2008-2009	75,118	44,000	119,118
2009-2010	72,990	45,000	117,990
2010-2011	70,817	46,000	116,817
2011-2012	68,849	20,000	88,849
2012-2013	67,959	20,000	87,959
2013-2014	67,025	22,000	89,025
2014-2015	66,024	23,000	89,024
2015-2016	64,978	24,000	88,978
2016-2017	63,888	25,000	88,888
2017-2018	62,753	26,000	88,753
2019-2023	294,973	148,000	442,973
2024-2028	258,138	184,000	442,138
2029-2033	212,304	230,000	442,304
2034-2038	155,123	286,000	441,123
2039-2043	83,835	358,000	441,835
2044-2047	14,010	193,000	207,010
TOTALS	<u>\$ 1,837,260</u>	<u>\$ 1,768,000</u>	<u>\$ 3,605,260</u>

The following is a summary of the changes in long-term debt principal for the year ended March 31, 2006:

	Balance 03/31/05	Additions	Reductions	Balance 03/31/06
Sewage Disposal Bond	\$ 98,000	\$ 0	\$ 15,000	\$ 83,000
Water Supply Bond - 1978	50,000	0	5,000	45,000
Water Supply Bond - 2003	931,000	0	9,000	922,000
TOTALS	<u>\$ 1,079,000</u>	<u>\$ 0</u>	<u>\$ 29,000</u>	<u>\$ 1,050,000</u>

NOTE G - BOND PAYMENT AND RESERVE REQUIREMENTS

The 1978 Water Supply System Revenue Bonds require that the Township establish a bond reserve account to be used for payment on the bonds in the event of default. At March 31, 2006, there was \$19,871 in the Bond Reserve account which is in compliance with bond requirements.

The ordinance authorizing issuance of the 2003 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Fund - Quarterly transfers are to be made in the sum of at least \$1,300 per quarter, until there is accumulated in such fund the aggregate sum of \$52,000.

Bond and Interest Redemption Fund - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE G - BOND PAYMENT AND RESERVE REQUIREMENTS (Continued)

Repair, Replacement and Improvement Fund - Quarterly transfers are to be made in the sum of not less than \$4,231.25, less the amount, if any, deposited in the Bond Reserve Fund.

At March 31, 2006, the Township has established these restricted cash accounts, as required:

	Requirements	Amount Funded
Bond reserve fund	\$ 11,700	\$ 11,721
Bond and interest redemption fund	12,724	65,215
Repair, replacement, and improvement fund	26,381	26,518
	<u>\$ 50,805</u>	<u>\$ 103,454</u>

NOTE H - DEFINED CONTRIBUTION PLAN

The Township is a member of the John Hancock Defined Contribution Pension Plan for Governmental Employees and provides pension benefits for all of its eligible employees through this plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Fire Chief, Constable, Department of Public Works Employees working thirty hours or more per week, and elected Township officials are eligible to participate from their date of employment. For the Fire Chief, Constable, and elected officials, the policy requires a contribution equal to 4% of compensation from the employer and employee. For Department of Public Works Employees working 30 or more hours per week, the policy requires a contribution equal to 6% of compensation from the employer. Voluntary contributions may be made up to a maximum of 10% of annual compensation. Township contributions for each employee and interest allocated to the employee's account are fully vested. Any amount contributed voluntarily by the employee under the plan, plus any interest earnings, are fully vested at the time of the contribution or crediting of investment earnings. The Township made contributions amounting to \$5,346.

NOTE I - BUDGET OVER EXPENDITURES

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted at the activity level.

During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Township Board	\$35,667	\$37,157	(\$1,490)
Supervisor	\$4,603	\$4,868	(\$265)
Treasurer	\$24,050	\$24,531	(\$481)
Sanitation/Garbage	\$50,500	\$50,522	(\$22)

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE J - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township maintained two Enterprise Funds which provided water and sewer services. Segment information for the year ended March 31, 2006 is as follows:

	Sewer Fund	Water Fund
Operating Revenues	\$98,657	\$133,429
Depreciation	\$29,107	\$91,449
Operating Income (Loss)	\$22,202	\$(5,916)
Non-operating Revenue (Expense)	\$(1,994)	\$(42,916)
Net Income (Loss)	\$20,208	\$(48,832)
Property, Plant and Equipment:		
Additions	\$52,653	\$24,135
Net Working Capital (Deficit)	\$70,057	\$156,962
Total Assets	\$634,789	\$3,398,892
Total Equity	\$528,382	\$2,400,062

NOTE K - SUBSEQUENT EVENT

The Township was awarded a loan of \$718,000 on May 11, 2006 from the U.S. Department of Agriculture - Rural Development for sewer system improvements. The proposed project includes a new residential sewage collection system along Half Moon Beach Road, residential sewage pump upgrades along Lakeshore Drive, and improvements to the existing lagoons. The total estimated cost of the project is \$818,000, with \$718,000 loan proceeds and \$100,000 Township contribution. The project is expected to be complete by the end of August 2006.

NOTE L - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - PRIOR PERIOD ADJUSTMENTS

During the year ended March 31, 2005, cash was understated in the Parks and Recreation fund due to an unrecorded inter-fund transfer. A prior period adjustment was made increasing cash and the fund balance in the amount of \$4,471 to correct cash and fund balance.

NOTE N - DEFICIT FUND BALANCE

The Fire Protection Fund financial statements show a deficit of \$3,578 at March 31, 2006.

SUPPLEMENTAL FINANCIAL INFORMATION

TOWNSHIP OF CHASSELL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended March 31, 2006

REVENUES

TAXES:

Property Tax	\$ 50,749
Commercial Forest Reserve (CFR)	<u>4,004</u>
Total taxes	<u>54,753</u>

STATE SHARED REVENUES	<u>134,184</u>
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FEDERAL	<u>91,590</u>
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CHARGES FOR SERVICES:

Cemetery fees	4,175
Garbage Collection	<u>55,898</u>
Total charges for services	<u>60,073</u>

OTHER:

Contributions	1,293
Administration and collection fees	14,701
Rents	4,118
Zoning permits	593
Reimbursements	4,079
Interest	9,766
Franchise fees	<u>4,998</u>
Total other	<u>39,548</u>

TOTAL REVENUES	<u>380,148</u>
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EXPENDITURES

TOWNSHIP BOARD:

Salaries	3,000
Fees	1,308
Office supplies	444
Printing and publishing	1,765
Professional services	28,777
Miscellaneous	<u>1,863</u>
Total township board	<u>37,157</u>

SUPERVISOR:

Salaries	4,550
Travel	65
Fees	<u>253</u>
Total supervisor	<u>4,868</u>

ELECTIONS:

Supplies, materials, and other	839
Printing and publishing	63
Contracted services	<u>509</u>
Total elections	<u>1,411</u>

TOWNSHIP OF CHASELL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Continued)
Year Ended March 31, 2006

ASSESSOR:

Supplies, materials, and other	1,328
Contract Services	<u>8,681</u>
Total Assessor	<u>10,009</u>

CLERK:

Salaries	9,648
Supplies, materials, and other	1,329
Travel expenses	<u>260</u>
Total clerk	<u>11,237</u>

BOARD OF REVIEW:

Contracted services	<u>1,150</u>
Total board of review	<u>1,150</u>

TREASURER:

Salaries	14,107
Office supplies	6,610
Printing and publishing	3,749
Travel	<u>65</u>
Total treasurer	<u>24,531</u>

TOWN HALL:

Salaries	25,787
Employee benefits	7,806
Supplies, materials, and other	804
Utilities	10,050
Repairs and maintenance	<u>1,229</u>
Total town hall	<u>45,676</u>

CEMETERY:

Salaries	2,436
Supplies, materials, and other	1,667
Utilities	309
Contracted services	8,617
Capital outlay	<u>2,300</u>
Total cemetery	<u>15,329</u>

CONSTABLE:

Salaries	<u>575</u>
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TOWNSHIP OF CHASSELL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Continued)
Year Ended March 31, 2006

FIRE PROTECTION:

Salaries	1,300
Supplies, materials, and other	34,168
Utilities	720
Travel expenses	1,875
Repairs and maintenance	540
Capital outlay	63,905
Miscellaneous	30
Total fire protection	<u>102,538</u>

DEPARTMENT OF PUBLIC WORKS AND STREETS:

Salaries	1,777
Supplies, materials, and other	2,342
Utilities	13,665
Repairs and maintenance	582
Contracted services	53,781
Miscellaneous	3,343
Total department of public works and streets	<u>75,490</u>

SANITATION/GARBAGE:

Salaries	13,247
Supplies, materials, and other	4,928
Repairs and maintenance	1,236
Contracted services	31,111
Total sanitation/garbage	<u>50,522</u>

ZONING:

Supplies, materials, and other	500
Contracted services	1,500
Total zoning	<u>2,000</u>

RECREATION:

Salaries	5,702
Supplies, materials, and other	2,816
Utilities	2,591
Repairs and maintenance	4,887
Contracted services	13,579
Total recreation	<u>29,575</u>

OTHER ACTIVITIES:

Payroll taxes	8,918
Employee benefits	4,000
Insurance	16,805
Professional services	3,000
Capital outlay	1,808
Miscellaneous	1,624
Total other activities	<u>36,155</u>

TOWNSHIP OF CHASSELL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Continued)
Year Ended March 31, 2006

TOTAL EXPENDITURES	<u>448,223</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(68,075)
OTHER FINANCING SOURCES (USES)	
Gain/Loss on Fixed Assets	4,800
Transfer in (out)	<u>(1,828)</u>
Total other financing sources	<u>2,972</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(65,103)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>425,300</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 360,197</u>

TOWNSHIP OF CHASSELL
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS-ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	Road Improvement Fund	Fire Protection Fund	Park and Recreation Fund	Liquor Law Enforcement	Totals (Memorandum Only)
ASSETS:					
Cash	\$ 278,770	\$ 3,798	\$ 8,471	\$ 2,109	\$ 293,148
Taxes receivable	5,712	-	-	-	5,712
Due from other funds	-	-	-	426	426
TOTAL ASSETS	\$ 284,482	\$ 3,798	\$ 8,471	\$ 2,535	\$ 299,286
LIABILITIES:					
Due to other funds	\$ -	\$ 7,376	\$ -	\$ -	\$ 7,376
Accrued salaries	-	-	-	22	22
Accrued expenses	-	-	-	2	2
Deferred revenue	5,712	-	-	-	5,712
TOTAL LIABILITIES	5,712	7,376	-	24	13,112
FUND EQUITY:					
Fund Balance	278,770	(3,578)	8,471	2,511	286,174
TOTAL LIABILITIES AND FUND EQUITY	\$ 284,482	\$ 3,798	\$ 8,471	\$ 2,535	\$ 299,286

TOWNSHIP OF CHASSELL
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES-ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	Road Improvement Fund	Fire Protection Fund	Park and Recreation Fund	Liquor Law Enforcement	Totals (Memorandum Only)
REVENUES:					
Taxes	\$ 78,279	\$ -	\$ -	\$ -	\$ 78,279
State revenue	-	-	-	904	904
Interest	4,893	94	383	108	5,478
TOTAL REVENUES	83,172	94	383	1,012	84,661
EXPENDITURES:					
Salaries	-	-	-	322	322
Bank charges	228	41	90	73	432
Repairs and maintenance	7,372	-	-	-	7,372
Miscellaneous	-	-	-	6	6
TOTAL EXPENDITURES	7,600	41	90	401	8,132
EXCESS OF REVENUES (EXPENDITURES)	75,572	53	293	611	76,529
OTHER FINANCING SOURCES (USES):					
Transfers	25,000	1,828	(25,000)	-	1,828
TOTAL OTHER FINANCING SOURCES (USES)	25,000	1,828	(25,000)	-	1,828
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	100,572	1,881	(24,707)	611	78,357
FUND BALANCE (DEFICIT), BEGINNING OF YE.	178,198	(5,459)	33,178	1,899	207,816
FUND BALANCE (DEFICIT), END OF YEAR	\$ 278,770	\$ (3,578)	\$ 8,471	\$ 2,511	\$ 286,174

TOWNSHIP OF CHASSELL
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS
Year ended March 31, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals (Memorandum Only)</u>
ASSETS:			
Current assets:			
Cash	\$ 65,059	\$ 27,782	\$ 92,841
Accounts receivable	415	416	831
Restricted cash	42,990	175,594	218,584
Fixed assets	1,265,707	3,832,307	5,098,014
Accumulated depreciation	<u>(739,382)</u>	<u>(637,207)</u>	<u>(1,376,589)</u>
TOTAL ASSETS:	<u>\$ 634,789</u>	<u>\$ 3,398,892</u>	<u>\$ 4,033,681</u>
LIABILITIES			
Accounts payable	\$ 442	\$ 210	\$ 652
Due to other funds	20,482	29,237	49,719
Current maturities on bond payable	15,000	15,000	30,000
Bonds payable- net of current maturities	68,000	952,000	1,020,000
Accrued salaries	1,396	1,797	3,193
Accrued expenses	<u>1,087</u>	<u>586</u>	<u>1,673</u>
TOTAL LIABILITIES	<u>106,407</u>	<u>998,830</u>	<u>1,105,237</u>
FUND EQUITY:			
Contributed capital	222,967	2,888,695	3,111,662
Retained earnings	<u>305,415</u>	<u>(488,633)</u>	<u>(183,218)</u>
TOTAL FUND EQUITY	<u>528,382</u>	<u>2,400,062</u>	<u>2,928,444</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 634,789</u>	<u>\$ 3,398,892</u>	<u>\$ 4,033,681</u>

TOWNSHIP OF CHASSELL
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ALL ENTERPRISE FUNDS
Year Ended March 31, 2006

	Sewer Fund	Water Fund	Totals (Memorandum Only)
OPERATING REVENUES:			
Federal and state grants	\$ -	\$ 16,900	\$ 16,900
Charges for services	98,133	113,867	212,000
Connection fees	-	1,062	1,062
Other	524	1,600	2,124
TOTAL OPERATING REVENUES	98,657	133,429	232,086
EXPENSES:			
Salaries	15,691	19,610	35,301
Employee benefits	6,937	5,941	12,878
Supplies, materials, and other	3,525	2,909	6,434
Office supplies	1,492	1,527	3,019
Utilities	7,622	5,881	13,503
Printing and publishing	329	937	1,266
Insurance	3,988	2,692	6,680
Repairs and maintenance	4,892	1,573	6,465
Professional services	1,917	4,093	6,010
Contracted services	270	2,216	2,486
Depreciation	29,107	91,449	120,556
Miscellaneous	685	517	1,202
TOTAL EXPENSES	76,455	139,345	215,800
OPERATING INCOME (LOSS)	22,202	(5,916)	16,286
NON-OPERATING REVENUES (EXPENSES):			
Interest income	2,231	1,984	4,215
Interest expense	(4,225)	(44,900)	(49,125)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,994)	(42,916)	(44,910)
NET INCOME (LOSS)	20,208	(48,832)	(28,624)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	273,400	(532,277)	(258,877)
ADJUSTMENTS TO RETAINED EARNINGS:			
Current year additions to contributed capital	-	13,900	13,900
Amortization on Contributed Capital	11,807	78,576	90,383
TOTAL ADJUSTMENTS TO RETAINED EARNINGS	11,807	92,476	104,283
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ 305,415	\$ (488,633)	\$ (183,218)

TOWNSHIP OF CHASSELL
COMBINING STATEMENTS OF CASH FLOWS
ALL ENTERPRISE FUNDS
Year Ended March 31, 2006

	<u>Sewer Disposal System</u>	<u>Water Supply System</u>	<u>Totals (Memorandum Only)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 22,202	\$ (5,916)	\$ 16,286
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	29,107	91,449	120,556
(Increase) decrease in accounts receivable	18,479	5,908	24,387
Increase (decrease) in accounts payable	442	210	652
Increase (decrease) in accrued expenses	770	2,383	3,153
Increase (decrease) in due to other funds	20,482	29,237	49,719
Increase (decrease) in prepaid charges	(8,866)	(17,291)	(26,157)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>82,616</u>	<u>105,980</u>	<u>188,596</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	(52,653)	(24,136)	(76,789)
Interest on investments	2,231	1,984	4,215
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(50,422)</u>	<u>(22,152)</u>	<u>(72,574)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions	0	13,900	13,900
Interest paid on long-term debt	(4,225)	(44,900)	(49,125)
Repayment of long-term debt	(15,000)	(14,000)	(29,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(19,225)</u>	<u>(45,000)</u>	<u>(64,225)</u>
NET INCREASE (DECREASE) IN CASH	12,969	38,828	51,797
CASH AT BEGINNING OF YEAR	<u>95,080</u>	<u>164,548</u>	<u>259,628</u>
CASH AT END OF YEAR	<u>\$ 108,049</u>	<u>\$ 203,376</u>	<u>\$ 311,425</u>

TOWNSHIP OF CHASSELL
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2006

TAX COLLECTION FUND

	Balance 03/31/05	Additions	Deductions	Balance 03/31/06
ASSETS:				
Cash	\$ 0	\$ 1,388,092	\$ 1,388,091	\$ 1
TOTAL ASSETS	\$ 0	\$ 1,388,092	\$ 1,388,091	\$ 1
LIABILITIES				
Due to other funds	\$ 0	\$ 136,033	\$ 136,032	\$ 1
Due to other governmental units	0	0	0	0
TOTAL LIABILITIES	\$ 0	\$ 136,033	\$ 136,032	\$ 1

DELINQUENT TAX COLLECTION FUND

	Balance 03/31/05	Additions	Deductions	Balance 03/31/06
ASSETS:				
Cash	\$ 7,701	\$ 8,435	\$ 8,014	\$ 8,122
TOTAL ASSETS	\$ 7,701	\$ 8,435	\$ 8,014	\$ 8,122
LIABILITIES:				
Due to other funds	\$ 0	\$ 474	\$ 474	\$ 0
Due to other governmental units	7,701	7,961	7,540	8,122
TOTAL LIABILITIES	\$ 7,701	\$ 8,435	\$ 8,014	\$ 8,122

TOTAL FUNDS

	Balance 03/31/05	Additions	Deductions	Balance 03/31/06
ASSETS:				
Cash	\$ 7,701	\$ 1,396,527	\$ 1,396,105	\$ 8,123
TOTAL ASSETS	\$ 7,701	\$ 1,396,527	\$ 1,396,105	\$ 8,123
LIABILITIES:				
Due to other funds	\$ 0	\$ 136,507	\$ 136,506	\$ 1
Due to other governmental units	7,701	7,961	7,540	8,122
TOTAL LIABILITIES	\$ 7,701	\$ 144,468	\$ 144,046	\$ 8,123



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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Supervisor and Board of Trustees
Township of Chassell
Chassell, Michigan

We have audited the general purpose financial statements of the Township of Chassell, for the year ended March 31, 2006, and have issued our report thereon dated June 21, 2006. As part of our audit, we made a study and evaluation of the Township's internal control structure only to the extent we considered necessary as required by generally accepted auditing standards.

Under generally accepted auditing standards, the purpose of an evaluation of the internal control structure is to establish a basis for reliance on the system in determining the nature, timing and extent of other auditing procedures and to assist in planning and performing the audit. Our audit would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

The following suggestions are submitted to assist in improving procedures and controls.

General Fixed Assets

A General Fixed Assets group of accounts should be established for the Township. This would include an inventory of all Township properties owned, segregated by land, buildings, and equipment, priced at cost or an appraised value where actual costs are difficult or impossible to determine. This would not include fixed assets for proprietary funds, which are already recorded.

Michigan Department of Treasury requires financial statements to follow Governmental Accounting Standards Board Statement No. 34 (GASB 34). One of the major changes GASB 34 requires is that government-wide financial statements will be prepared using full accrual accounting. This change will require townships to place a value on all capital assets, calculate depreciation, record offsetting long-term debt, and report information regarding the net value of assets on the government-wide financial statements.

Insured Deposits

We noted that approximately sixty four percent (64%) of the Township's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to increase the percent of deposits insured and to decrease the potential risk of loss to the Township.

Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Township Board	\$35,667	\$37,157	(\$1,490)
Supervisor	\$4,603	\$4,868	(\$265)
Treasurer	\$24,050	\$24,531	(\$481)
Sanitation/Garbage S	\$50,500	\$50,522	(\$22)

We recommend that timely revisions be made to the budget so that these over expenditures do not occur in the future.

Board Minutes Documentation

At the first meeting of the year when the Township authorizes public depositories (banks) and attorney, authorized check signers should also be noted in the minutes.

When adopting or amending the budget the total revenues and expenditures should be noted in the minutes.

Water and Sewer Accounting

It is recommended that a procedures manual for the Water and Sewer billing be created. The manual should document the billing and collection processes, and meter reading practices. The manual ought to include personnel activity, software procedures, and standardized reports.

Deficit Fund Balance

The Fire Protection Fund financial statements show a deficit of \$3,578 at March 31, 2006.

In accordance with Public Act 275 of 1980, the Township must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) a copy of the Township resolution noting the plan to eliminate the deficit; and (3) a projected budget, approved by the Township, itemizing the revenues, expenditures and the changes in the fund balance.

We would like to thank the staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present the above suggestions and are prepared to discuss them at your convenience.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

June 21, 2006